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C O N F I D E N T I A L MOSCOW 000178

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STATE FOR EUR/RUS, EB/ESC/IEC, EB/CBA
FRANKFURT FOR TAX ATTACHE SUSAN STANLEY, BILL COTTER
TREASURY FOR BAKER/GAERTNER
NSC FOR MCKIBBEN, GRAHAM
USDOC FOR 4231/IEP/EUR/JBROUGHER

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SUBJECT: RUSSIAN TAX, CBR OFFICIALS CAUGHT IN FSB STING

REF: MOSCOW 81

Classified By: ECON M/C Quanrud, Reasons 1.4 (b/d).

¶1. (SBU) Summary. Court proceedings began this week in a bribery case brought against two mid-level officials (one from the Federal Tax Service and one from the Central Bank) in connection with what is fairly routine business in Russia -- an attempt by the tax service to extort money from a taxpayer in the face of potentially trumped up tax charges. What is interesting about this case is both the alleged bribe amount (some USD 5.3 million -- which is a considerable sum given the rank of the officials involved) and the fact that the FSB (not MVD) conducted the sting operation. Contacts in western tax firms aren't certain what to make of the case, but take it as a generally positive sign that finally someone seems to be paying attention to the poor behavior of the tax service. End Summary.

¶2. (SBU) The Moscow Municipal Court began proceedings on January 16 in a tax fraud case involving Oleg Alekseev, Deputy Director for Credit Organizations at the Federal Tax Service and Aleksey Mishkin, Chief Legal Advisor in the Central Bank's Moscow Regional Office. The Moscow district attorney's office has charged the two men with extorting a USD 5.3 million bribe in 2005 from Aleksey Ivashchenko, CEO of Russian Capital Bank, in exchange for making a 2004 unpaid taxes claim of USD 75 million against the bank disappear. Ivashchenko reportedly informed the Federal Security Service (FSB) about the solicited bribe in September 2005, and FSB officers organized a sting the following month and reportedly caught Alekseev and Mishkin in the act of taking the bribe.

¶3. (C) Ernst and Young (EY) Partner Vladimir Abramov told Econoff that evaluating the Alekseev-Mishkin case was difficult because of the questions surrounding the matter. On one hand, he said he could believe that officials would solicit bribes; he said EY clients have occasionally provided anecdotal evidence of similar incidents. On the other hand, he questioned why Russian Capital Bank apparently did not pursue the appeals process. (Note: Russian Capital lost in the initial instance. End Note) Abramov considered the sting somewhat unusual since, at that time, other large banks routinely won their tax cases in the appeals process or succeeded in reducing their tax claims.

¶4. (C) Deloitte's Financial Services Director Ekaterina Emelianova echoed Abramov's concerns about the validity of the original unpaid tax claim and about the FSB's tactics.

Nevertheless, she expressed hope that this case would ultimately serve as evidence that the senior FTS leadership is sincere about improving the organization's effectiveness and transparency. In addition, FTS has pledged to increase the legitimacy of the audit process by making it less susceptible to manipulation and fraud. Emelianova observed that the FTS has embarked on a thankless task to uncover grey salary schemes in the private sector and to put firms on notice that audits will be conducted "vigorously." She said that these programs would be beneficial as long as tax officials were kept in check. She lamented, however, that tax issues often remain vulnerable to political pressure, as evidenced by the case against PriceWaterhouseCoopers for its allegedly falsified audits of former oil giant Yukos (reftel).

15. (C) Comment. Around the time of the sting operation against Alekseev and Mishkin, post was approached by senior MinFin officials proposing a similar FSB-led operation against the tax service, this time in a case involving a bribery attempt against a U.S. firm. The idea for the sting reportedly came directly from FSB head Patryshev and Minister of Finance Kudrin, who hoped a high-profile case might have a signal effect on bad actors in the FTS. The U.S. firm declined to participate for reputational reasons, but post has every reason to believe the offer on the part of MinFin/FSB was genuine.
RUSSELL